This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L ALMATY 004264

SIPDIS

DEPT FOR EB/ESC; EUR/SNEC (MANN); EUR/CACEN (MUDGE)

E.O. 12958: DECL: 11/30/2015
TAGS: ENRG EPET KZ ECONOMIC
SUBJECT: KAZAKHSTAN: TENGIZ CONSORTIUM SOLIDIFYING
SHORT-TERM EXPORT OPTIONS

REF: ALMATY 3075

Classified By: POEC CHIEF DEBORAH MENNUTI FOR REASONS 1.4(B) and (D)

¶1. (C) Summary. Tengizchevroil (TCO) recently finalized a series of contracts which pave the way for the temporary export of up to 5 million tons of TCO oil per year, beginning in 2007, through the Georgian port of Batumi. This "Southern export route" is one means (along with rail transport of 5 million tons from Tengiz to Odessa) by which TCO hopes to cope with increased TCO "second generation" production, expected in late 2006 or early 2007, until CPC pipeline expansion is completed. While shipping oil by rail from Baku to Batumi constitutes an acceptable option for TCO, the consortium is currently pursuing one or two-year access to the BTC pipeline -- a more economical "last leg" to market. End Summary.

TCO Finds Short-Term Export Solution

¶2. (C) In November 29 conversation with Econoff, Colin Nesbeth, Chevron's Commercial Manager of Marketing and Transportation (based in London and Aktau), confirmed November 23 press reports that TCO had concluded a series of contracts facilitating the future export of Tengiz oil through the Georgian port of Batumi. Nesbeth (strictly protect) described the "Southern Export Route" as one-half of TCO's strategy for exporting increased Tengiz production (expected to grow from the current 280K b/d to approximately 480K b/d in late 2006 or early 2007) until CPC expansion is completed. The other half of TCO's export solution, Nesbeth indicated, consisted of shipping 5 million tons per year (100K b/d) from Tengiz to the port of Odessa by rail.

Expansion of Kazakhstani Infrastructure Needed
-- -

¶3. (C) According to Nesbeth, TCO's search for alternative export routes, dubbed the "Crude Export Project," was launched January 2004, with serious negotiations with various Kazakhstani, Azeri, and Georgian entities beginning in June
¶2004. On the Kazakhstani side, TCO struck deals with Kazakhstan's national railroad company (Kazakhstan Temir Zholy), which will expand and upgrade its crude carrying capacity; the national shipping company (Kazmortransflot), which, along with Azerbaijan's Caspar, will provide the estimated half-dozen 12-13,000 ton vessels needed to carry the crude across the Caspian; and KazTransOil (KTO), whose Aktau terminal will be used for shipment.

¶4. (C) Interestingly, Nesbeth credited PetroKazakhstan's (PK) recent sale to CNPC (reftel) with easing two difficult aspects of the negotiations. First, with much of PK's Kumkol oil now expected to flow East, into the Atasu-Alashankou pipeline, rather than West, Kazakhstani railway capacity was freed up to carry larger volumes of TCO oil to Aktau. Second, TCO gained access to KTO's Aktau terminal (with its "much better, and more transparent rates" than competitor Mobilex) only after PK withdrew its long-standing application to use the terminal.

Announcement Meant to Pressure Russians on CPC
-- -

¶5. (C) Nesbeth explained that, while the Southern Route deals had been finalized "a while ago," the public announcement had been delayed until November 23 in order to influence Russian behavior during next week's CPC expansion meetings. While CPC remains TCO's preferred export route, Nesbeth said, even an immediate settlement of the expansion terms would push project completion to "mid or late 2008," necessitating the new short-term export routes. (Comment: Others have offered a shorter estimation of the project construction phase. End comment.)

BTC Pipeline: Short-Term Export Solution of Choice
-- -----

¶6. (C) Nesbeth emphasized that, notwithstanding the newly-negotiated contracts to ship TCO's oil from Baku to Batumi by rail, TCO would prefer to ship its oil from Baku to

market via the BTC. The BTC pipeline was a good short-term fit for TCO oil, Nesbeth explained, because it would be underutilized until Kashagan production began in 2009 or
¶2010. TCO had already entered into negotiations with BTC

Co., Nesbeth said, and -- with the Baku-Batumi rail option in pocket as leverage -- hoped to secure favorable commercial terms. Nesbeth noted that TCO is contractually obligated to specify the volumes it will ship from Baku to Batumi (up to 5 million tons) by March 2006, and thus that date would likely drive the pace negotiations with BTC Co. (Nesbeth suggested that, even if the BTC negotiations were successful, TCO was likely to ship "at least a half million tons" of oil by rail from Baku to Batumi in order to keep the option open.)

¶7. (C) Comment: TCO and BTC Co. would seem likely to reach a short-term deal for shipping TCO oil, given their apparent coincidence of economic interests. While brokering this complicated, multi-party transportation deal was quite an accomplishment for TCO, significant infrastructure improvements must be realized before TCO oil can be delivered -- at least in the quantities discussed here -- to Batumi or Ceyhan. End Comment.
ORDWAY

NNNN